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MERVYN'S

DAYTON'S

Marshall Field's

HUDSON'S



*Annual Report 1993*

# Dayton Hudson



# Corporation

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**DAYTON HUDSON CORPORATION**, one of America's largest general merchandise retailers, strives to be a premier growth company and corporate citizen. We operate each of our operating divisions to be a major force in its geographic market, retail category and customer segment. **TARGET**, which accounts for 61% of our revenues, is an upscale discount chain of 554 stores in 32 states which provides quality merchandise at attractive prices in clean, spacious and customer-friendly stores. **MERVYN'S**, which contributes 23% of our revenues, is a moderate-price department store emphasizing name-brand and private-label casual apparel and home softgoods through 276 stores in 15 states. **THE DEPARTMENT STORE DIVISION**, which provides 16% of our revenues, offers fashion leadership, quality merchandise and superior service through 63 Dayton's, Hudson's and Marshall Field's stores in nine states. **WE ARE COMMITTED TO:** serving customers better than the competition, being a lower-cost distributor of merchandise, innovating to make continuous improvements, achieving consistent earnings growth, building strong partnerships with vendors and providing leadership through corporate giving and employee volunteerism in the communities we serve. As we fulfill these commitments, we provide shareholders with attractive returns.

**Financial Highlights**

(Millions of Dollars, Except Per-Share Data)

FOR THE YEAR	1993	1992	% Change
Revenues	\$19,233	\$17,927	7 %
Net earnings	\$ 375	\$ 383	(2)%
Fully diluted earnings per share	\$ 4.77	\$ 4.82	(1)%
Cash dividends declared per share	\$ 1.62	\$ 1.54	5 %

**AT YEAR-END**

Common shares outstanding	71,525,000	71,384,000
Number of shareholders	11,707	12,196
Retail square feet	94,184,000	87,362,000
Number of stores	893	834

- Total revenues and operating profit reached record levels in 1993.
- Each of our three operating divisions is focused on offering value through lower prices, which resulted in a lower overall gross margin rate in 1993.
- Net earnings declined 2% from 1992.
- Fully diluted earnings per share declined 1% from 1992.
- The debt ratio was lowered 2 percentage points to 59% in 1993 from 61% in 1992.

**W**e made good progress in 1993 on many fronts. Nevertheless, our performance was not up to the high standards we expect, nor the standard you want from us. 1994 will reflect a strong focus on generating sales and earnings that meet our expectations and yours.

## TO OUR SHAREHOLDERS:

**DIFFICULT RETAILING YEAR** Many retailers and industry analysts describe 1993 as a difficult year affected by concerns about the economy and taxes, by unusually inclement weather and the most promotional holiday season in memory. The economy worsened in California, where we generate approximately 25 percent of our sales. In addition, we did not maintain sufficient marketing and promotional energy throughout 1993. Most significantly for us, Mervyn's results deteriorated because we did not make sufficient progress on our turnaround plan.

**FOCUS FOR 1994: FUNDAMENTALS** Our 1994 focus is on the fundamentals needed to drive sales and earnings growth in a highly competitive environment.

**IMPROVE TREND MERCHANDISING** We made good progress in 1993 on our execution of trend merchandising. We know that our contract with our customers begins only when our stores have the merchandise customers want. This means superb execution of trend merchandising. We will continue to work on being among the best in retailing at being in-stock with the styles, quality levels and price points our customers want.

During 1994, we will roll out new or enhanced systems in all three divisions to facilitate the selection of merchandise assortments and quantities and to manage product flow from vendors to our stores. We are also applying trend merchandising principles to make our in-store presentations more compelling. Done well, merchandise flow and in-store presentations give us a competitive advantage.

**STRENGTHEN OPERATING TECHNOLOGY** We also continue to strengthen operations — particularly in product distribution. This was evident in our significant

1993 inventory reductions, which will contribute to higher profitability. Lower inventories will also help us to further improve our return on investment in 1994.

This year we are focused on further improving our inventory turnover, in-stock performance and expense rates. Inventory management and other efficiency efforts are being driven by advanced technology.

Our technological expertise is among the best in the industry. Target was the first major retailer to convert to a paperless domestic purchase order system and is moving toward a completely paperless distribution environment. Our Department Stores are now linked electronically with their top 500 vendors and this year will be 100% UPC marked — reducing the cycle time from receiving to in-store presentation. Mervyn's has increased the peak period productivity of its distribution centers by nearly 30 percent over the past two years through advanced inventory management systems and merchandise handling technologies. We believe our operating efficiency will show additional progress in 1994 — resulting in lower expense rates and faster inventory turnover.

**EXPAND CROSS-DIVISIONAL SYNERGIES** In addition to efforts within each operating division, we will continue to create cross-divisional synergies. In 1993, we analyzed and began implementing corporate-wide programs in the areas of telecommunications, freight, advertising and promotion expenses, non-merchandise supplies and services, real estate and store construction. We expect these synergies to generate more than \$20 million in savings this year.

**COMPETITIVE VALUE PRICING** In 1993, we took steps to be sure our prices were as low as or lower than our competitors on comparable merchandise. Reductions were most significant at Mervyn's and the Department Stores, as Target had already implemented new prices in 1991 and 1992. These price reductions were largely offset by reductions in our cost of goods. Our 1993 LIFO credit of \$91 million principally resulted from internal measurements of these reductions. In 1994, we need to do a better job of featuring our volume/value price points in dominant presentations in our stores and in our advertising and signing. We are also expanding our assortments of opening- and middle-price-point merchandise to ensure we have selection and dominance in these categories.

Value means different things to different customers—price...service...convenience and quality. But success in today's environment requires great prices at all quality and service levels. One simply cannot be undersold for the same product or service.

**IMPROVE SALES AND PROFIT** Significant sales and profit improvement is a prime objective for Dayton Hudson in 1994.

Target is now price competitive with any retailer in the market and has successfully differentiated itself among discounters in its fashion content, store appearance and service. Target should continue strong operating profit growth and is our principal vehicle for expansion.

Our Department Store Division continues to implement advanced systems to further reduce expenses and improve inventory turns. We are very pleased with our improvement in trend merchandising, value offering and promotional intensity. This division is an important source of profits and remains a corporate-wide resource for fashion strength and ideas.

Mervyn's management team has been greatly strengthened, and we are now implementing the remaining elements of our turnaround strategy. Inventory management and customer service have been dramatically improved. Fashion content and branded assortments are being enhanced. Value pricing is now competitive on comparable items. We are in the process of improving our

in-stock position and strengthening our promotional and advertising stance. While these actions have taken longer than we had planned, we are determined and confident that Mervyn's full-year 1994 results will reflect the complete integration of our strategic changes.

Finally, California's economy seems to have bottomed out. We believe we have great opportunities in California.

**COMMITMENTS FOR 1994** We are committed to being a WORLD CLASS COMPETITOR. We expect all parts of our Corporation to be competitive in every phase of our operations and in all strategic aspects of the business in 1994. Our long-term goals have not changed. We are committed to a portfolio of retail strategies...with each division a major force in its geographic market, retail segment and customer category.

### **DAYTON HUDSON'S LEADERSHIP**

We are identified as one of the most socially responsible corporations on many national listings. Our governance structure was recognized by *Business Week* as a model for the "Corporation of the Future." Our Board of Directors provides excellent guidance on your behalf. In 1993 Donald J. Hall, former chairman of Hallmark Cards, Incorporated, and a director for 15 years, retired. We are grateful for Don's significant contributions. We also welcomed two new directors in 1993: William W. George, president and chief executive officer of Medtronic, Inc., and Robert J. Ulrich, Target's chairman and chief executive officer.



Kenneth A. Macke, Chairman of the Board, in Mervyn's girl's department.

**IN CLOSING** After eleven years as CEO, it is time for me to step aside and make room for the next generation of Dayton Hudson leadership. The Board and I agreed that the Corporation is well positioned and that this is a good time for me to retire. At its meeting in April, the Board named Bob Ulrich to succeed me as chief executive officer. He is ready for the new challenge and I believe that our Corporation is poised to deliver improved performance. The leadership of each operating division and the Corporation is strong and focused. The strategies are in place.

I have loved every minute of the last 33 years. It has been a privilege to head this great Corporation, and I thank the Board and each shareholder for that opportunity. I leave with great confidence in the strength of Dayton Hudson's leadership teams and strategies and with deep gratitude for the thousands of employees who have served with me.

Sincerely,

Kenneth A. Macke  
Chairman of the Board  
April 14, 1994



**T**arget achieved solid sales growth and operating profit improvement in 1993. Total revenues increased 13% from 1992 and comparable-store revenues grew 5%. Target's gross margin rate declined slightly as price

# STRONG PROFIT GROWTH CONTINUES

reductions were offset by lower unit costs and markdowns. Operating profit increased 15% to \$662 million despite the competitive retail environment's pressure on gross margin. These results reflected Target's attention to the fundamentals of its strategy.

**ASSURED COMPETITIVE PRICES** Target's prices overall on identical or comparable items are as low as, or lower than, our competitors' prices. Our employees around the country regularly visit competitors' stores and have the authority to reduce Target's prices in their local markets when necessary. We believe this strategy contributed significantly to Target's 1993 same-store sales growth.

**DEMONSTRATED TREND LEADERSHIP** Target is a trend leader within the discount industry. We constantly work to be the first to present key merchandise trends, employing a full-time team to identify trend-right colors, fabrics, styles and themes. We test small quantities of potential new trend items and then quickly place larger orders when sales justify it. During 1993 our major trends included bodysuits which accounted for sales of more than \$15 million, Warner Bros.<sup>™</sup> licensed products, which we carried in more than 25% of our softgoods and hardlines departments, and framed art — particularly with holiday and Southwestern themes.

**INTENSIFIED MICRO-MARKETING** In 1993, Target embraced micro-marketing as a company-wide initiative to generate incremental sales. Micro-marketing means tailoring our merchandise assortments to customers' needs in individual stores or markets. It means responding to variations in climate, ethnic diversity and differences in social, geographical and legal attributes, rather than operating with a "one size fits all" mentality. For example, wooden baseball bats are illegal in Phoenix; Florida residents want apparel in whites and brights;

and, Hispanic greeting cards sell well within the migrant community of Willmar, Minnesota. With increasingly sophisticated systems and broader-based decision-making, we now have the flexibility to merchandise our stores as a small Mom-and-Pop enterprise would, while still enjoying the benefits of a large, centrally organized company.

**INTRODUCED "GUEST CULTURE"** In 1993, Target bolstered its commitment to "Fast, Fun and Friendly" customer service by rolling out our "Guest Culture" program chainwide. This program is modeled on the practices of premier customer service companies such as Disney. Our Guest Culture is about smiling, offering help, actually guiding a guest to the desired item, and getting our guests through the check-out line as quickly as possible. Simply, Guest Culture aims to please guests and convert their enjoyment into repeat business.

## TARGET

(Dollar Amounts in Millions)

	1993	1992	1991
Revenues	\$ 11,743	\$ 10,393	\$ 9,041
Operating Profit	\$ 662	\$ 574	\$ 458
Stores	554	506	463
Retail Square Feet*	58,087	52,211	47,086

\* In thousands, reflects total square feet less office, warehouse and vacant space.

## Highlights

- Target achieved record revenues and operating profit in 1993 despite a competitive retail environment.
- Target's 1993 retail square footage grew 11%, including a successful, 18-store entry in metro Chicago.
- Target reinforced its commitment to "Fast, Fun and Friendly" customer service by rolling out its "Guest Culture" initiative chainwide in 1993.

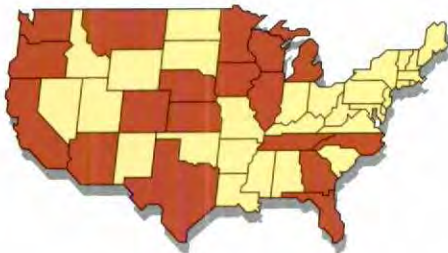
**IMPROVED EXPENSE RATE** For the third consecutive year, Target's operating expense rate improved in 1993 as we employed technology to improve productivity. Target achieved a significant milestone during 1993 by being the first major retailer to convert 100% of our domestic vendors to Electronic Data Interchange "paperless" technology for purchase orders. We also implemented a new product development system which allowed us to significantly cut lead times on merchandise orders and respond more quickly to emerging trends. Both of these advances helped to reduce per-store inventory levels, decrease working capital costs, lower expenses and improve in-stock positions in 1993.

**1993 EXPANSION** During 1993 Target added 50 new stores, including a very successful 18-store entry into the Chicago market. We also grew market share by adding stores in existing markets in the Southeast, Midwest and Southwest. We continued to integrate Target Greatland features such as wide aisles, color-coded signing and graphics and the "Food Avenue" and "Guest Services" areas into all of our new stores and remodels.

**TOP 1994 PRIORITIES** Target's challenge in 1994 is to be even better than we were in 1993 at providing quality, trend-right merchandise at competitive prices in clean, attractive, customer-friendly stores. Increasing sales and market share remain Target's top priorities in 1994. We are aggressively pursuing micro-marketing and have made it an objective of every merchant in our division. We are supporting this commitment with investment in programs and systems that speed our decision process, increase the profitability of our selections and allow us to customize advertising, merchandise presentation and product assortments. For example, in the same newspaper

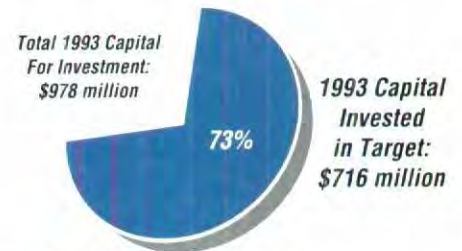
circular, we may now feature fleece in Northern California and substitute shorts in Southern California to accommodate differences in climate. We believe that we have an opportunity to improve 1994 sales and gross margin rate from last year's disappointing holiday season by emphasizing Target's value image. Our 1994 promotional strategy couples Target's newspaper circular with increased broadcast advertising, which is highly effective in communicating institutional messages. Our new advertising campaign, "Expect More. Pay Less.," captures the essence of Target's value message. We know our customers want great everyday value; in 1994, we are working to deliver the goods and the message.

We are hopeful that the worst of the California recession is behind us. With approximately 25% of Target's business in California, we are optimistic that our sales will reflect a modest recovery by year-end.



**1994 Target  
Expansion States**  
(in red)

*Target is our principal  
vehicle for expansion.*



**Target's Share of 1993  
Capital Investment**

**INCREASE PRODUCTIVITY** We continue to grow our business without comparable increases in overhead costs, thus leveraging our expenses over a larger sales base. However, Target must further reengineer work processes and implement systems which will enhance our productivity. In 1994, we are working on programs to improve the management of backroom inventory, supplies and hourly payroll. Earlier in the year, we expanded our two-way direct video conferencing capabilities, enabling us to "meet" without the cost and time investments of travel.

**EXPANSION AND INNOVATION** We continue to prepare ourselves for retailing's next century through physical expansion and innovation. As Dayton Hudson's primary growth vehicle, Target was allocated the majority of the Corporation's 1993 capital spending budget. Target will continue to be the Corporation's fastest-growing strategy in 1994. This year, we plan to open approximately 60 new stores and our eighth distribution center. We are also conducting a small-scale test of the supercenter store concept (general merchandise and groceries), and beginning to explore the broad spectrum of electronic retailing.

We look forward to 1994. Target is poised to deliver outstanding performance in 1994, despite our value strategy's continued impact on gross margin. Our management team remains strong. Improving our expense rate continues to be a high priority. We expect our micro-marketing, trend merchandising and guest culture initiatives will contribute to solid sales growth and increased market share in 1994.



A



## Target assets: fashion, low prices and innovation.

**A** Target opened a videoconferencing center during 1993 to link 44 sites via two-way video/audio service. This improves divisional communication and reduces the expense and time investment of travel. **B** Target is heightening its value image in 1994 with its new "Expect

More. Pay Less." advertising and in-store signing campaign. **C** Target's merchandise trend team constantly works to identify trend-right colors, fabrics and styles, including this Spring collection of value-priced casual toddler boys' clothes for our private-label CIRCO™ line.



**M**ervyn's performance in 1993 was clearly disappointing. Mervyn's turnaround is taking longer than we had expected. Our execution was not as consistent nor as good as it should have been—especially in the

## POSITIONED TO PERFORM IN 1994

first half. Merchandise, in-store presentation and advertising were generally too basic early in the year. Our promotional posture was also insufficient relative to our competitors. As a result, customer traffic declined and total revenues fell 2%, while comparable-store revenues were off 6%.

The economy in California, where nearly half of Mervyn's stores are located, was weak throughout the year. Apparel sales were soft nationally as many consumers opted to invest in durable items.

While we aggressively reduced inventory levels by 35% in order to strengthen our future business, this increased permanent markdowns in 1993. Gross margin eroded, missing our own goal. As a consequence, Mervyn's 1993 operating profit contribution fell 37% to \$179 million in 1993.

**NOW WELL-POSITIONED** The numbers fail to show that changes at Mervyn's have positioned us well for 1994 and beyond.

**New Management:** By year-end 1993, approximately 70% of Mervyn's senior management team was new to Mervyn's or to their current responsibilities within the past year. Joining Mervyn's in 1993 were: Paul Sauser, formerly senior vice president of merchandising at Target, now Mervyn's president and chief operating officer; Kathleen Holliday, a marketing veteran of J.C. Penney, Spiegel, Dayton Hudson and other retailers, now Mervyn's senior vice president of marketing; Raj Joneja, who has many years of merchandising experience gained at Dayton Hudson, Diamond's, Steinbach's and other retailers, now Mervyn's senior vice president and general merchandise manager for women's sportswear; Alan Jahns, previously vice president/merchandise

manager at Target, now Mervyn's senior vice president and general merchandise manager for home, men's and children's; and Charles Lynch, the former vice president of finance for Target and a top financial executive at Ames Department Stores and National Car Rental, who was named vice president and chief financial officer in early 1993.

We restructured and streamlined our field organization under the direction of Senior Vice President of Stores Gary White and four regional vice presidents. This more than doubled our stores management expertise, allowing us to spend more time on the sales floor, closer to the customer.

**Reduced Inventory:** As our overall inventory level fell in 1993, inventory turnover increased. This provided substantial savings, freshened our merchandise, reduced store expenses and allowed our merchants to buy new trends.

## MERVYN'S

(Dollars in Millions)

	1993	1992	1991
Revenues	\$ 4,436	\$ 4,510	\$ 4,143
Operating Profit	\$ 179	\$ 284	\$ 284
Stores	276	265	245
Retail Square Feet*	22,273	21,305	19,479

\* In thousands, reflects total square feet less office, warehouse and vacant space.

## Highlights

- Approximately 70% of Mervyn's senior management team was new to Mervyn's or to their positions in 1993.
- Mervyn's reduced its inventories by 35% in 1993, lowering expenses and increasing inventory turns.
- During the second half, Mervyn's efforts to turn around its merchandising, advertising and customer service began to yield improvements which are expected to continue into 1994.

**Upgraded Merchandising:** We initiated an aggressive effort to upgrade the merchandising to our core customers — women. Mervyn's reintroduced dress business sparked sales of more than \$90 million in 1993. Career separates and casual career wear also improved significantly. During 1993, our merchandising revitalization was most advanced in women's footwear and accessories, where sales rose 25%.

**Better Customer Communications:** Starting in the second half of 1993, we became more emphatic and compelling about fashion and price in all customer communications — in stores, in our newspaper advertising supplements and in our broadcast advertisements. By year-end, Mervyn's ads were appearing more frequently on prime-time television in key markets.

**More Value:** We moved to a strategy of offering the customer terrific value in our regular prices and exceptional value in our promotional prices. Customers responded; our regular price business in 1993 was up 25% from 1992.

**Controlled Expenses:** Mervyn's 1993 actual expenses were less than planned. Our operating expense rate, however, rose in the face of much slower sales.

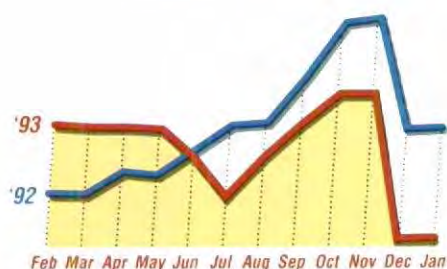
**Improved Customer Service:** We launched the "Delivering Quality Service" initiative chainwide in 1993. "Mystery Shoppers" at each store detected a 30% improvement in key service factors in 1993. In fact, recent independent research confirms that customers are feeling more positive about Mervyn's — an important sign for our 1994 performance.

**OUR 1994 AGENDA** We are not where we want to be, but we have clear objectives for 1994.

**Drive Sales and Market Share:** We are driving sales in 1994 by offering more trend-right merchandise at sharper price points and telling customers about it more clearly. We also expect growth in California sales in 1994.

**Deliver Quality Service:** We are editing merchandise assortments for our time-pressed customers, improving our in-stock position and making our stores easier to shop with wider aisles, knowledgeable associates, less crowding and improved store graphics to identify departments and create helpful displays.

**More Trend-right Items:** Spring 1994 is the first season to reflect the merchandising



**Mervyn's Inventory Reduction**

**Mervyn's has reduced its inventories and improved customer service.**



**Mervyn's 1993 Customer Service Improvement**  
(Independent Shopper Research)

strategies of Mervyn's current management team. Customers are finding more incoming trends, better quality fashion and sharper prices. We continue to concentrate on fashionability in our women's and junior's dresses and women's casual career departments.

**Clearer Communications:** Our 1994 advertising program has a clear message: Mervyn's has fresh apparel and home products that are attractively fashioned, durably made and compellingly priced. We are increasing the frequency of our prime-time television ads and carrying more pages in our newspaper advertising supplements to build traffic.

**Improve Gross Margin:** Our three-fold attack on gross margin involves: trimming clearance markdowns by reducing inventories and keeping our merchandise fresher; growing the regular-price business through our value-pricing strategy; and capturing more incremental sales at better margins by tailoring merchandise assortments to match the needs of each store's customers.

**Aggressively Manage Expenses:** We are achieving savings by controlling inventory levels. We also continue to invest in systems that improve our merchandising and distribution productivity. We expect to leverage expenses against higher sales to bring our 1994 operating expense rate down.

**Build Long-term Improvement:** We believe we have laid the foundation for long-term improvement in our business. Achieving our 1994 objectives will bring us closer to our goal: to be known as "The value leader in trend-right apparel and home products." Mervyn's new management team's strategies will deliver results in 1994.



## *Mervyn's focus: fashion, value and service.*

**A** Mervyn's reintroduced women's dresses in 1993, a move that generated more than \$90 million in sales for the year. **B** As it moved to a value-pricing philosophy in 1993, Mervyn's instituted several value programs — Great Value, Price Cut and Hot Buy — to heighten its image as

a value retailer. **C** Mervyn's significantly upgraded the fashionability of its merchandise in several departments in 1993 as it greatly improved customer service through the "Deliver Quality Service" program, which is designed to increase associates' knowledge and helpfulness on the sales floor.



**T**he Department Store Division achieved record operating profits as our sharper emphasis on value took hold in the second half. Operating profit rose 18% for the year.

# BALANCING MODERATE & BETTER BUSINESS

**INCREASED VALUE** We began to broaden our customer base by lowering opening price points in many departments and protected gross margin by capitalizing on corresponding reductions in the cost of goods. We strengthened our moderate-priced business while maintaining our better-priced business.

We improved our value offering across all price points. Stronger Fall business more than compensated for a first half that was characterized by consumer caution, unusually cool weather and a weak industry-wide apparel trend.

**FOCUSED ON TRENDS** The Department Stores' renewed focus on trend merchandising began to show results in 1993. We challenged our buyers to be first on trends in our marketplaces and probably sold more "wallets on a string" than any other retailer in the country. We took excellent advantage of the surge in the home business, with very strong performances in housewares, textiles and tabletop. Our tabletop business continued to rank among the best in the country.

**INVESTED IN STORES** We made additional investments in our stores during 1993, completing two major remodels and two smaller ones. The State Street Marshall Field's store, remodeled in 1992, continues to be one of our fastest growing stores as well as our largest. Dayton's performance began to improve after the anniversary of the opening of the Mall of America in Minnesota in August. We announced the addition of two major new stores: Northbrook Court near Chicago for 1995 and Somerset North near Detroit for 1996.

**PERFORMANCE** The year ended with the most competitive fourth quarter in department store history. Improvement in our expense rate was partially offset by expenses related to more aggressive advertising. Despite the competitive environment, the Department Store Division again



## DEPARTMENT STORE DIVISION

(Dollars in Millions)

	1993	1992	1991
Revenues	\$ 3,054	\$ 3,024	\$ 2,931
Operating Profit	\$ 268	\$ 228	\$ 168
Stores	63	63	62
Retail Square Feet*	13,824	13,846	13,744

\* In thousands, reflects total square feet less office, warehouse and vacant space.

**A** Taking advantage of high customer demand for home-related products in 1993, the Department Stores' tabletop business continued to rank among the best in the country.

**B** The Department Stores offered more value-priced merchandise, such as its Field Gear® line, during 1993.

## Highlights

- The Department Store Division achieved higher operating profit in 1993, in part by offering more value in many departments.
- We improved sales by emphasizing trends and taking advantage of increased demand for home-related items.
- The Department Stores also reduced inventories in 1993, creating opportunity for faster merchandise turns in 1994.

increased its operating profit on top of a 36% increase in 1992.

**1994 AGENDA** In 1994, we are continuing to respond to our customers' demand for more value. We are working even harder to make sure we are not undersold in any merchandise category. We believe having the right trends at the right price will drive our performance, as it did in the fourth quarter of 1993.

We are reinvigorating our service culture. We are implementing a comprehensive plan to reinforce our service standards, recognize service accomplishments, give department managers more selling and less administrative responsibility, and regularly track our performance with professional shoppers.

We finished 1993 with less inventory than 1992, which means faster inventory turns in 1994, more freshness in our merchandise, and reduced clearance markdowns. Major new systems in 1994 will track and control the purchase and delivery of merchandise and increase productivity.

The programs are in place to drive continuous improvement in 1994. We are competing head-on with both the upscale stores and with mass merchants in the moderate and better businesses. We are focused on value, trend and service in 1994. We are confident that good execution will sustain our momentum.

One of the things that sets Dayton Hudson apart from our competitors is our involvement as a corporate contributor, volunteer, civic leader and employer.

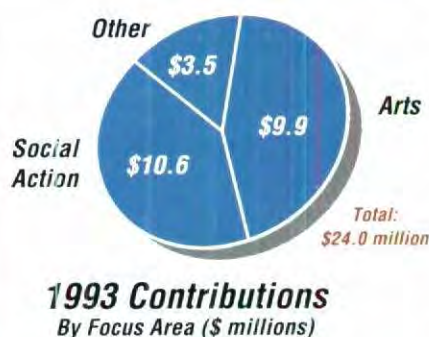
## SOCIAL RESPONSIBILITY AND OUR IDENTITY

During 1993, Dayton Hudson ranked first among retailers for its social responsibility according to *Fortune* magazine's "America's Most Admired Corporations" survey of corporate reputations. The Corporation also was recognized by more than 40 organizations nationwide for its support of social action, arts and employment programs.

**COMMUNITY GIVING** Since 1946, we have invested 5 percent of our federally taxable income in social action and arts programs in store communities. This investment of \$303.0 million to date is the largest community giving commitment of any major U.S. retailer. Giving through the Dayton Hudson Foundation and our three operating divisions totaled nearly \$24.0 million in 1993, including \$3.2 million in corporate contributions to 239 United Way organizations in 33 states. Employees contributed another \$9.8 million, making our total United Way commitment one of the highest in retailing.

During 1993, Dayton Hudson was active in several important issues.

- **Economic Independence**—For many years we have supported various employment programs for the disadvantaged. In 1993, we began a partnership with Habitat for Humanity in which Target employees build a new home for the homeless in each major market where Target opens a store.
- **Child Care**—Through our Child Care Aware initiative, we remind parents that quality child care is an important investment in a child's future. We share this message through public education and child care provider training programs and our "Thanks for Loving Care" program of recognizing quality child care providers.
- **Arts For Families**—Programs supported by Dayton's, Hudson's, Marshall Field's, Mervyn's and Target fund arts education and help make arts events accessible to all families.



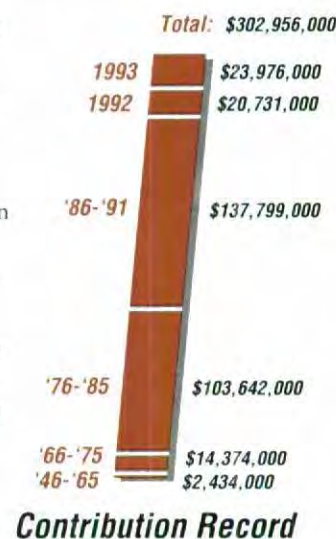
Dayton Hudson stores across America are also involved in community-building special events and local fundraising throughout the year. Much of our community giving and volunteerism are conducted at the local store level.

### VOLUNTEERISM AND CIVIC LEADERSHIP

Our employees leverage Dayton Hudson's giving by volunteering regularly, responding to disasters and by serving as community leaders. Employees have been heavily involved in Midwest flood recovery efforts and in helping those affected by the fires, civil disturbances and the earthquake in Southern California. Dayton Hudson employees frequently serve on boards, commissions and public policy study groups in service to their local communities. Our volunteerism is encouraged, organized and recognized.

**AS AN EMPLOYER** During 1993, the Corporation was included in two new books, *The 100 Best Companies to Work For in America* and *The Best Companies for Minorities: Employers Across America Who Recruit, Train and Promote Minorities*. Dayton Hudson was also named to "The 100 Best Companies for Working Women," by *Working Mother* magazine, *Hispanic* magazine's "100 Companies Providing the Most Opportunities for Hispanics," and "The 50 Best Companies for Hispanic Women," compiled by the *Vista* magazine section of *The Dallas Morning News*. The Corporation and its operating divisions were further recognized in 1993 by organizations representing working parents, minorities and those with disabilities.

**IN 1994** Our community involvement gives Dayton Hudson a distinctive personality in the marketplace and offers us opportunities for leadership. The Corporation is attractive to many customers, suppliers, employees and investors because of its social responsibility. In 1994, we are continuing to contribute to our communities through giving, volunteerism and leadership.



*Dayton Hudson Corporation  
and Subsidiaries*

# 1993 FINANCIAL REPORT

## *1993 Financial Summary*

- Total revenues reached an all-time high of \$19 billion, representing an increase of 7% from 1992. The Corporation has achieved revenue increases each year since it became publicly held in 1967.
- Each of the three operating divisions is committed to offering value through lower prices, which resulted in a lower overall gross margin rate in 1993.
- Total operating profit reached a record \$1,109 million, compared with \$1,086 million in 1992, achieved by improvements at Target and the Department Store Division.
- Net earnings were \$375 million in 1993 compared with \$383 million in 1992.
- Fully diluted earnings per share were \$4.77 per share compared with \$4.82 per share last year.
- The debt ratio was lowered 2 percentage points in 1993 from 61% to 59%.
- Dividends declared totaled \$1.62 per share, a 5% increase from \$1.54 per share a year ago.
- Capital expenditures were \$978 million for constructing new stores, remodeling existing stores, improving distribution and upgrading systems and technology.

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## Financial Review

(Millions of Dollars, Except Per-Share Data)



**Return on Equity**  
(percent)



**Earnings per Share**  
(dollars)



**Return on Investment**  
(percent)

Our financial objective is to provide shareholders with an attractive total return on their investment while maintaining a flexible capital structure. Total return is comprised of current dividend income and share price appreciation. Achieving this objective requires strong, consistent earnings performance and profitable investment in new growth opportunities.

### PERFORMANCE OBJECTIVES

We use two primary performance objectives that provide a framework for financial decision making:

#### Achieve a return on equity of 18%.

Return on equity (ROE) was 14.4% in 1993, reflecting disappointing operating performance. This performance compared with our 1992 ROE of 16.1%.

**Achieve an average annual fully diluted earnings per share growth of 15% over time.** Fully diluted earnings per share decreased 1% in 1993 compared with an increase of 30% in 1992 and a decrease of 28% in 1991.

Our EPS growth objective of 15% is supported by continued growth in physical space, the improving return on sales at maturing stores and the strong cash flow and resulting deleveraging effect of existing mature stores. Our capital investment over the past five years has produced a 10% compound annual rate of square footage growth.

Achievement of our performance objectives depends largely on our ability to produce a superior return on investment (ROI). ROI is defined as net earnings before financing costs expressed as a percent of total investment. We believe ROI performance is the most important measure of financial performance and it is the primary financial tool used to manage our business. We use a growth-adjusted ROI curve which sets annual ROI standards for the life of a project to produce a return in excess of our cost of capital. ROI is lower in the early years of a new store's life, reflecting start-up costs, lower sales and higher asset values due to lower accumulated depreciation. As stores mature, profitability improves and ROI increases, generating earnings growth.

### RETURN ON INVESTMENT

	1993	1992	1991
<b>Return</b>			
Net earnings	\$ 375	\$ 383	\$ 301
Interest expense—after tax (a)	281	279	251
Interest equivalent in operating leases—after tax (b)	26	27	27
Earnings before financing costs	\$ 682	\$ 689	\$ 579
<b>Investment at beginning of year</b>			
Working capital (c)	\$1,844	\$1,906	\$1,593
Net property and equipment (d)	5,563	5,102	4,525
Other non-current assets	360	351	341
Present value of operating leases	419	411	413
Total investment at beginning of year	\$8,186	\$7,770	\$6,872
<b>Return on Beginning Investment</b>	<b>8.3%</b>	<b>8.9%</b>	<b>8.4%</b>

(a) Interest expense on beginning-of-year debt and capital leases.

(b) Assumes after-tax interest cost on beginning-of-year present value of operating leases of approximately 6.1% for 1993 and 6.5% for 1992 and 1991.

(c) Current assets less non-interest-bearing current liabilities.

(d) Includes capital leases.

## Financial Review

(Millions of Dollars, Except Per-Share Data)

Financial performance measures are used in several key management processes:

**Capital Allocation.** We allocate capital for the expansion of each operating division based on actual and projected financial performance as measured against its ROI standard.

Additional criteria for allocating capital include the quality of the operating division's strategic plan and the strength of its management team.

**Capital Project Evaluation.** Capital projects are expected to achieve ROI levels which will produce an internal rate of return over their life in excess of our cost of capital. We monitor actual results in the years following completion to determine individual project performance.

**Incentive Compensation.** Incentive compensation is based upon how well the Corporation's financial results compare with other relevant high-performing retail companies. To be eligible for incentive compensation, a threshold level of financial performance relative to the comparison group, must be achieved.

The amount of incentive compensation increases as the relative performance improves within the comparison group.

### FINANCIAL POLICIES

Our principal financial policies are as follows:

**Maintain strong investment grade debt ratings.** Our long-term debt ratings are A+, A3 and A from Duff & Phelps, Moody's and Standard & Poor's, respectively. Our commercial paper debt ratings are D-1+, P-2 and A-1 from Duff & Phelps, Moody's and Standard & Poor's, respectively.

**Maintain a year-end debt ratio within a range of 45% to 65%.** This debt ratio range enables management to take advantage of changes in the economy and the retail environment.

Our debt ratio declined to 59% at the end of 1993 and we expect it to move toward the middle of the range over time while continuing to support our expansion.



**Debt Ratio**  
(year-end percent)



**Capitalization**  
(millions)  
• Debt & Equivalents  
• Total Capitalization



**Cash Flow from Operations**  
(millions)

### DEBT RATIO

#### Debt and equivalents

	1993	1992	1991
Notes payable and current portion of long-term debt*	\$ 373	\$ 394	\$ 453
Long-term debt*	4,279	4,330	4,227
Present value of operating leases	504	419	411
<b>Total debt and equivalents</b>	<b>\$5,156</b>	<b>\$5,143</b>	<b>\$5,091</b>

#### Capitalization

	1993	1992	1991
Debt and equivalents	\$5,156	\$5,143	\$5,091
Deferred income taxes and other	536	450	381
Convertible preferred stock	368	374	377
Common shareholders' investment	2,737	2,486	2,231
<b>Total capitalization</b>	<b>\$8,797</b>	<b>\$8,453</b>	<b>\$8,080</b>

<b>Year-End Debt Ratio</b>	<b>59%</b>	<b>61%</b>	<b>63%</b>
----------------------------	------------	------------	------------

\* Includes capital leases.

## Financial Review

(Millions of Dollars, Except Per-Share Data)

### FINANCIAL POLICIES *continued*

**Funding of Capital Expenditures.** Capital expenditure commitments are limited to what can be financed by projected internally-generated funds and committed financing.

### CAPITAL EXPENDITURES

Capital expenditures totaled \$978 million in 1993 and are expected to be approximately \$1.3 billion in 1994. Capital expenditure priorities are as follows:

**Keep** existing facilities fresh and exciting to maintain and grow current market share.

**Improve** distribution and systems to cost-effectively support sales growth.

**Build** new stores in existing markets to increase market share and leverage our existing expense structure.

**Build** stores in new markets to enhance growth and increase market share.

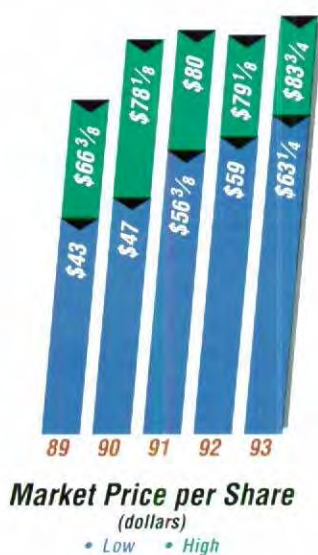
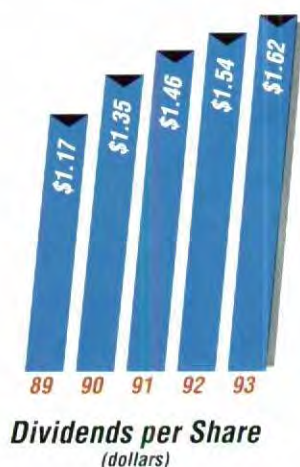
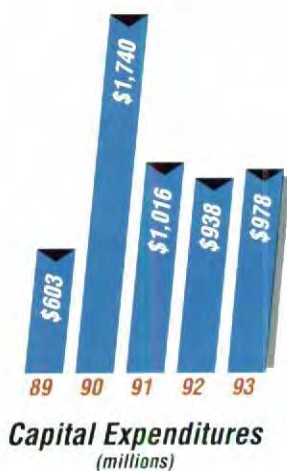
Due to sufficient capital resources, we were able to maintain our capital expenditure priorities while allocating the majority of our spending towards new store growth. Most new store capital continues to be allocated to Target due to its proven record of successful expansion and profitable growth.

In order to retain flexibility, the majority of our planned capital spending for the next several years remains uncommitted.

### SHAREHOLDER RETURN

**Dividends.** To support our objective of providing shareholders with an attractive total return on their investment, it is our policy to make regular annual increases in dividends declared on common stock. Dividends declared in 1993 increased 5% to \$1.62 per share, compared with \$1.54 per share declared in 1992. The quarterly dividend paid in the first quarter of 1994 was increased to \$.42 per share, indicating an annualized dividend of \$1.68 per share.

**Market Value Per Share.** The common stock price reflects the market's view of our performance and future prospects, as well as industry and general economic conditions. At March 24, 1994 there were 11,787 shareholders of record and the common stock price was \$74.75 per share.



# Analysis of Operations

(Millions of Dollars, Except Per-Share Data)

Our 1993 financial performance did not meet our expectations. Net earnings were \$375 million compared with \$383 million in 1992 and \$301 million in 1991. The shortfall from our expectations was primarily due to poor performance at Mervyn's.

Despite not meeting our net earnings expectations, total operating profit reached a record \$1,109 million compared with \$1,086 million in 1992 and \$910 million in 1991. Target posted a 15% increase in operating profit and the Department Store Division (DSD) reported an 18% increase. Mervyn's declined 37%. Operating profit in 1993 was aided by a substantial LIFO credit, mainly due to Mervyn's and DSD's adoption of internally-generated price indices (see discussion on page 31).

Target's record operating profit improved strongly from 1992, reflecting solid revenue growth and improved expense control somewhat offset by a lower gross margin rate.

Mervyn's operating profit declined significantly as a result of lower revenues, a lower gross margin rate and a higher operating expense rate.

DSD achieved record operating profit due to higher revenues and improved gross margin and operating expense rates.

Fully diluted earnings per share were \$4.77 in 1993 versus \$4.82 in 1992 and \$3.72 in 1991. Target, our primary growth vehicle, has contributed the largest share to overall earnings in the past three years. Due to the significant growth at Target, our lowest margin division, overall revenue growth and the operating expense rate were favorably affected, while the gross margin rate was unfavorably affected. The table below identifies the major factors in the change in earnings per share:

Variance Analysis	1993	1992	1991
Prior year's earnings per share	\$4.82	\$3.72	\$5.20
Change due to:			
Revenues (a)	.59	.81	.75
Gross margin rate (b)	(.52)	(.77)	(1.27)
Operating expense rate (c)	.16	1.32	(.09)
Start-up expenses (d)	.06	(.03)	(.14)
Interest expense, net	(.08)	(.31)	(.54)
Corporate expense and other, net (e)	(.03)	.08	(.19)
Unusual items (primarily earthquake)	(.23)	-	-
<b>Earnings per share</b>	<b>\$4.77</b>	<b>\$4.82</b>	<b>\$3.72</b>

(a) Includes sales, finance charge revenue and other.

(b) Excludes buying and occupancy costs.

(c) Includes buying and occupancy costs, portions of selling, publicity and administrative expense, depreciation and taxes other than income taxes.

(d) Includes costs associated with opening new stores and remodeling existing stores; included in selling, publicity and administrative expense.

(e) Includes corporate headquarters expense, corporate charitable contributions and other miscellaneous items.

## REVENUES

The Corporation reported a 7% increase in total revenues and a 1% increase in comparable-store revenues in 1993 despite deflation of retail prices at all operating divisions. Target's solid revenue increase was primarily due to its new store expansion and continued success of its value-pricing strategy. Mervyn's revenue decline reflects the slow process of re-orienting the consumer from a heavy promotional shopping environment to a more balanced value-pricing and promotional strategy. Additionally, both Target and Mervyn's have a substantial presence in the California market, which remained depressed throughout 1993. DSD's revenues were up slightly due primarily to added promotional events.

Revenue growth in 1992 was the result of expanding the value-pricing strategy at Target, along with new store growth, increased promotions and increases in base business at all operating divisions. Revenue growth in 1991 was driven by new store expansion and the full-year contribution of Marshall Field's operations. Overall price changes in 1992 and 1991 were minimal and, as a result, reported comparable-store revenue increases closely approximate real growth.

Revenue Growth	1993		1992		1991	
	All Stores	Comp. Stores*	All Stores	Comp. Stores*	All Stores	Comp. Stores*
Target	13%	5%	15%	5%	11%	4%
Mervyn's	(2)	(6)	9	3	2	(1)
DSD	1	1	3	2	17	1
Total	7%	1%	11%	4%	9%	2%

\*Comparable-store revenues are revenues from stores open longer than a year.

One measure used to evaluate store productivity is revenues per square foot. Higher revenues per square foot at Target reflect increased base business, partially offset by the inherent lower productivity of new stores. DSD's growth was due to enhanced productivity, especially at the Marshall Field's stores. Mervyn's decline reflects lower revenues.

Revenues Per Square Foot* (dollars)	1993	1992	1991
Target	\$213	\$209	\$205
Mervyn's	204	223	224
DSD	221	219	215

\*Thirteen-month average retail square footage.

# Analysis of Operations

(Millions of Dollars, Except Per-Share Data)

## GROSS MARGIN RATE

Our gross margin rate declined in 1993, reflecting our lowering of opening retail prices to meet the needs of the value-conscious consumer, partially offset by a LIFO credit. Also, the 1993 holiday season was one of the most promotional. Looking forward, with accelerated growth from Target and strategies focusing on value at all the operating divisions, the gross margin rate may continue to decline.

**Target's** gross margin rate declined slightly in 1993, reflecting the ongoing impact of its value-pricing strategy. This impact was partially offset by a corresponding improvement in the promotional markdown rate along with a LIFO credit.

**Mervyn's** 1993 gross margin rate declined reflecting higher clearance markdowns associated with reducing inventories. Also, implementation of a value strategy pressured the gross margin rate despite an improvement in the promotional markdown rate.

**DSD's** gross margin rate increased in 1993 reflecting a lower cost of merchandise, in addition to a LIFO credit. Implementation of a value-pricing strategy and higher promotional markdowns partially offset the improvement.

The gross margin rate in 1992 declined slightly reflecting increased consumer value-consciousness in a competitive retail environment. The 1991 gross margin rate declined reflecting a weak economy and strong customer response to advertised merchandise.

## OPERATING EXPENSE RATE

Our overall operating expense rate continued to improve in 1993 with expense management at each of the operating divisions and the benefit of cross-divisional synergies in technology, logistics and advertising. Operating expense rate reductions will continue to be a major focus in 1994.

**Target's** operating expense rate improved in 1993, reflecting sales leverage and expense efficiencies within the stores.

**Mervyn's** operating expense rate deteriorated substantially in 1993 despite its continued focus on expense disciplines. The rate increase reflects slightly higher operating expenses on lower revenues.

**DSD's** operating expense rate improved in 1993 due to distribution expense efficiencies, partially offset by increased advertising expenses associated with incremental promotional events.

In 1992, the operating expense rate improved significantly through disciplined expense management at each operating division. The 1991 operating expense rate increased slightly, reflecting weak comparable-store revenue growth at Mervyn's and DSD.

## START-UP EXPENSES

Start-up expenses declined in 1993 due to a reduction in the number of new stores opened. Start-up expenses increased in 1992 and 1991 due to Target's accelerated store growth and ongoing remodeling programs at all the operating divisions. A total of 62 new stores were opened in 1993 compared with 68 in 1992 and 63 in 1991. Start-up expenses are recognized evenly throughout the year in which the expenses are incurred.

## INTEREST EXPENSE

Total interest expense increased in 1993, 1992 and 1991 due to an increase in average debt required to finance the business. Lower interest rates somewhat offset the impact of increased average debt levels.

Components of Interest Expense, Net	1993	1992	1991
Interest on debt	\$438	\$431	\$397
Interest on capital leases	15	15	14
Interest cost capitalized	(5)	(6)	(11)
Interest income	(2)	(3)	(2)
Interest expense, net	\$446	\$437	\$398

## UNUSUAL ITEMS

In January 1994, 11 Target stores and 13 Mervyn's stores sustained various levels of damage associated with the Los Angeles earthquake. The portion of uninsured losses included in operating profit and recorded in selling, publicity and administrative expense, were \$7 million and \$15 million for Target and Mervyn's, respectively.

The Tax Reform Act of 1993 required a one-time after-tax charge to earnings of \$4 million, or \$.05 per share, as a result of applying the higher tax rate to deferred tax balances (see page 23).

## Notes and Analysis

(Millions of Dollars, Except Per-Share Data)

<b>BUSINESS SEGMENTS</b>	<b>1993</b>	<b>1992</b>	<b>1991</b>	<b>1990</b>	<b>1989*</b>	<b>1988</b>
<b>Revenues</b>						
Target	\$11,743	\$10,393	\$ 9,041	\$ 8,175	\$ 7,519	\$ 6,331
Mervyn's	4,436	4,510	4,143	4,055	3,858	3,411
Department Store Division	3,054	3,024	2,931	2,509	1,801	1,693
Other	—	—	—	—	466	769
<b>Total</b>	<b>\$19,233</b>	<b>\$17,927</b>	<b>\$16,115</b>	<b>\$14,739</b>	<b>\$13,644</b>	<b>\$12,204</b>
<b>Operating profit</b>						
Target	\$ 662	\$ 574	\$ 458	\$ 466	\$ 449	\$ 341
Mervyn's	179	284	284	366	358	256
Department Store Division	268	228	168	183	179	159
<b>Total</b>	<b>1,109</b>	<b>1,086</b>	<b>910</b>	<b>1,015</b>	<b>986</b>	<b>756</b>
Interest expense, net	446	437	398	325	267	218
Corporate and other	56	38	40	31	41	66
<b>Earnings before income taxes</b>	<b>\$ 607</b>	<b>\$ 611</b>	<b>\$ 472</b>	<b>\$ 659</b>	<b>\$ 678</b>	<b>\$ 472</b>
<b>Operating profit as a percent of revenues</b>						
Target	5.6%	5.5%	5.1%	5.7%	6.0%	5.4%
Mervyn's	4.0	6.3	6.9	9.0	9.3	7.5
Department Store Division	8.8	7.5	5.7	7.3	10.0	9.4
<b>Assets</b>						
Target	\$ 5,495	\$ 4,913	\$ 4,393	\$ 3,722	\$ 3,505	\$ 2,982
Mervyn's	2,750	3,042	2,686	2,439	2,260	2,166
Department Store Division	2,240	2,292	2,317	2,261	838	808
Corporate and other	293	90	89	102	81	567
<b>Total</b>	<b>\$10,778</b>	<b>\$10,337</b>	<b>\$ 9,485</b>	<b>\$ 8,524</b>	<b>\$ 6,684</b>	<b>\$ 6,523</b>
<b>Depreciation</b>						
Target	\$ 263	\$ 236	\$ 208	\$ 190	\$ 170	\$ 146
Mervyn's	146	135	117	107	98	91
Department Store Division	88	87	84	69	34	33
Corporate and other	1	1	1	3	13	20
<b>Total</b>	<b>\$ 498</b>	<b>\$ 459</b>	<b>\$ 410</b>	<b>\$ 369</b>	<b>\$ 315</b>	<b>\$ 290</b>
<b>Capital expenditures</b>						
Target	\$ 716	\$ 571	\$ 605	\$ 374	\$ 414	\$ 457
Mervyn's	180	294	303	210	133	154
Department Store Division	80	72	106	1,155	37	31
Corporate and other	2	1	2	1	19	39
<b>Total</b>	<b>\$ 978</b>	<b>\$ 938</b>	<b>\$ 1,016</b>	<b>\$ 1,740</b>	<b>\$ 603</b>	<b>\$ 681</b>

\*Consisted of 53 weeks.

Operating profit is LIFO earnings from operations before corporate expense, interest and income taxes.

Other includes Lechmere through September 1989.

## *Consolidated Results of Operations*

<i>(Millions of Dollars, Except Per-Share Data)</i>	<b>1993</b>	<b>1992</b>	<b>1991</b>
<b>Revenues</b>	<b>\$19,233</b>	<b>\$17,927</b>	<b>\$16,115</b>
<b>Costs and Expenses</b>			
Cost of retail sales, buying and occupancy	14,164	13,129	11,751
Selling, publicity and administrative	3,175	2,978	2,801
Depreciation	498	459	410
Interest expense, net	446	437	398
Taxes other than income taxes	343	313	283
Total Costs and Expenses	18,626	17,316	15,643
Earnings Before Income Taxes	607	611	472
Provision for Income Taxes	232	228	171
<b>Net Earnings</b>	<b>\$ 375</b>	<b>\$ 383</b>	<b>\$ 301</b>
<b>Primary Earnings Per Share</b>	<b>\$ 4.99</b>	<b>\$ 5.02</b>	<b>\$ 3.86</b>
<b>Fully Diluted Earnings Per Share</b>	<b>\$ 4.77</b>	<b>\$ 4.82</b>	<b>\$ 3.72</b>
<b>Average Common Shares Outstanding (Millions):</b>			
Primary	71.8	71.6	71.5
Fully Diluted	76.1	75.9	75.9

The financial statements should be read in conjunction with the Notes and Analysis contained throughout pages 21-32.

# Notes and Analysis

(Millions of Dollars, Except Per-Share Data)

## FINANCE CHARGE REVENUES

Finance charge revenues on internal credit sales were \$192 million on sales of \$3.5 billion in 1993, \$186 million on sales of \$3.5 billion in 1992 and \$182 million on sales of \$3.3 billion in 1991.

## INCOME TAXES

At the beginning of 1993, the Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes," which requires the use of the liability method of accounting for deferred income taxes. Prior-year financial statements have not been restated for the provisions of SFAS No. 109. The cumulative and the current-year effects of the adoption were not significant. Income taxes for 1992 and 1991 were calculated according to SFAS No. 96, "Accounting for Income Taxes," which was superseded by SFAS No. 109.

The Corporation's effective tax rate was 38.2% for 1993 compared with 37.3% for 1992 and 36.3% for 1991. The increase in the 1993 tax rate over 1992 reflects the one percentage point increase in the federal statutory tax rate and the associated one-time adjustment to increase deferred tax balances, partially offset by tax savings from the reenactment of the Targeted Jobs Tax Credit. Also, with the adoption of SFAS No. 109, the financial reporting deductibility of ESOP preferred stock dividends earned was reduced to shares allocated to participant accounts versus all outstanding ESOP shares. The higher effective tax rate in 1992 over 1991 was primarily due to increased state tax rates.

Effective tax rates vary from the federal statutory rate as follows:

Percent of Earnings Before			
Income Taxes	1993	1992	1991
Statutory rate	35.0%	34.0%	34.0%
State income taxes, net of			
federal tax benefit	4.6	4.7	4.0
Cumulative effect of adopting			
SFAS No. 109	(1.4)	-	-
Dividends on preferred stock	(.5)	(1.5)	(2.0)
Other	.5	.1	.3
Effective tax rate	38.2%	37.3%	36.3%

## INCOME TAXES continued

The components of the provision for income taxes were:

Income Tax Provision	1993	1992	1991
Current:			
Federal	\$166	\$176	\$112
State	37	41	25
	203	217	137
Deferred:			
Federal	23	8	31
State	6	3	3
	29	11	34
Total	\$232	\$228	\$171

The components of the net deferred tax liability were:

	January 29, 1994	January 30, 1993
Net Deferred Tax Liability		
Gross deferred tax assets:		
Deferred compensation	\$ 55	\$ 47
Self-insured benefits	69	44
Postretirement health care obligation	41	38
Other	59	74
	224	203
Gross deferred tax liabilities:		
Inventory	37	-
Property and equipment	304	290
Purchase accounting differences	33	33
Other	34	35
	408	358
Net deferred tax liability	\$184	\$155

## EARNINGS PER SHARE

Primary earnings per share equal net earnings, less dividend requirements on ESOP preferred stock (net of tax benefits in 1993 related to unallocated shares associated with the adoption of SFAS No. 109), divided by the average number of common shares and common stock equivalents outstanding during the period.

Fully diluted earnings per share are computed based on the average number of common shares and common stock equivalents outstanding during the period. The computation assumes conversion of the ESOP preferred stock into common stock. Net earnings also are adjusted for the additional expense required to fund the ESOP debt service (net of tax benefits in 1993 related to unallocated shares associated with the adoption of SFAS No. 109), which results from the assumed replacement of the ESOP preferred dividends with common stock dividends.

References to earnings per share relate to fully diluted earnings per share.

## Consolidated Statements of Financial Position

<i>(Millions of Dollars)</i>	January 29, 1994	January 30, 1993
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 321	\$ 117
Accounts receivable	1,536	1,514
Merchandise inventories	2,497	2,618
Other	157	165
Total Current Assets	4,511	4,414
<b>Property and Equipment</b>		
Land	1,120	998
Buildings and improvements	4,753	4,342
Fixtures and equipment	2,162	2,197
Construction-in-progress	248	223
Accumulated depreciation	(2,336)	(2,197)
Net Property and Equipment	5,947	5,563
<b>Other</b>	320	360
<b>Total Assets</b>	<b>\$10,778</b>	<b>\$10,337</b>
<b>LIABILITIES AND COMMON SHAREHOLDERS' INVESTMENT</b>		
<b>Current Liabilities</b>		
Notes payable	\$ 200	\$ 23
Accounts payable	1,654	1,596
Accrued liabilities	903	849
Income taxes payable	145	125
Current portion of long-term debt	173	371
Total Current Liabilities	3,075	2,964
<b>Long-Term Debt</b>	4,279	4,330
<b>Deferred Income Taxes and Other</b>	536	450
<b>Convertible Preferred Stock</b>	368	374
<b>Loan to ESOP</b>	(217)	(267)
<b>Common Shareholders' Investment</b>		
Common stock	72	71
Additional paid-in capital	73	58
Retained earnings	2,592	2,357
Total Common Shareholders' Investment	2,737	2,486
<b>Total Liabilities &amp; Common Shareholders' Investment</b>	<b>\$10,778</b>	<b>\$10,337</b>

The financial statements should be read in conjunction with the Notes and Analysis contained throughout pages 21-32.

# Notes and Analysis

(Millions of Dollars, Except Per-Share Data)

## CASH EQUIVALENTS

Cash equivalents represent short-term investments with a maturity of three months or less at the time of purchase. Short-term investments are recorded at cost, which approximates fair value.

## ACCOUNTS RECEIVABLE

Customer accounts receivable are classified as current assets and include some which are due after one year, consistent with industry practice. Accounts receivable generally are written off when any portion of the balance is 12 months past due, or when the required payments have not been received for six consecutive months. The allowance for doubtful accounts was \$35 million and \$37 million at year-end 1993 and 1992, respectively.

## CREDIT CARD SUBSIDIARY

Retailers National Bank (the Bank), a national credit card bank and a wholly owned subsidiary, was chartered on January 7, 1994. The Bank, at inception, acquired the outstanding accounts receivable of DSD and Target. It issues DSD-named credit cards, which are accepted at DSD and Target stores. Net earnings for the Bank were insignificant for 1993. The following is the condensed statement of financial position for the Bank.

	January 29, 1994
Accounts receivable, net	\$668
Other assets	16
<b>Total Assets</b>	<b>\$684</b>
Liabilities, principally deposit due to the Corporation	\$634
Investment of the Corporation	50
<b>Total Liabilities and Investment</b>	<b>\$684</b>

## INVENTORIES

Inventories and the related cost of sales are accounted for by the retail inventory accounting method using the last-in, first-out (LIFO) basis. Under this method, the cost of retail sales, as reported in the Consolidated Results of Operations, represents current cost, thereby reflecting the effect of changing prices. The accumulated LIFO provision was \$80 million and \$171 million at year-end 1993 and 1992, respectively (see page 31 for further discussion of the LIFO provision).

## PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost less accumulated depreciation. For financial reporting purposes, depreciation on property is computed using the straight-line method over estimated useful lives. Accelerated depreciation methods generally are used for income tax purposes.

## ACCOUNTS PAYABLE

Outstanding drafts included in accounts payable were \$239 million and \$372 million at year-end 1993 and 1992, respectively.

## LEASES

Assets held under capital leases are included in property and equipment and are charged to depreciation and interest over the life of the lease. Operating leases are not capitalized and lease rentals are expensed. Rent expense on buildings, included in buying and occupancy, includes percentage rents which are based on a percentage of retail sales over stated levels. Total rent expense was \$100 million, \$94 million and \$92 million in 1993, 1992 and 1991, respectively.

Many of the long-term leases include options to renew, with renewal terms varying from five to 30 years. Certain leases also include options to purchase the property. Future minimum lease payments required under noncancelable lease agreements existing at the end of 1993 were:

	Operating Leases	Capital Leases
<b>Future Minimum Lease Payments</b>		
1994	\$ 99	\$ 20
1995	98	20
1996	91	19
1997	71	19
1998	64	18
After 1998	501	189
Total future minimum lease payments	924	285
Less: Interest*	(411)	(153)
Executory costs	(9)	(5)
<b>Present value of minimum lease payments</b>	<b>\$504</b>	<b>\$ 127**</b>

\* Calculated using the average interest rate in the year of inception for each lease (weighted average interest rate - 9.6%).

\*\* Includes current portion of \$5 million.

## COMMITMENTS AND CONTINGENCIES

Commitments for the purchase of real estate, construction of new facilities, remodeling of existing facilities and other equipment purchases over the next year amounted to approximately \$186 million at January 29, 1994.

The Corporation is exposed to claims and litigation arising out of the ordinary course of business. Considering the insurance coverage in place for a major portion of the claims and litigation, and noting that the ultimate resolutions cannot be accurately predicted, management, after consulting with legal counsel, believes that the presently identified claims and litigation will not have a material adverse effect on the Corporation's results of operations or its financial condition.

## Consolidated Statements of Cash Flows

<i>(Millions of Dollars)</i>	<b>1993</b>	<b>1992</b>	<b>1991</b>
<b>Operating Activities</b>			
Net earnings	\$ 375	\$ 383	\$ 301
Reconciliation to cash flow:			
Depreciation	498	459	410
Deferred tax provision	29	11	34
Other noncash items affecting earnings	60	48	26
Changes in operating accounts providing/(requiring) cash:			
Accounts receivable	(22)	(84)	(23)
Merchandise inventories	121	(237)	(365)
Accounts payable	58	272	57
Accrued liabilities	63	142	59
Income taxes payable	20	27	(62)
Other	17	(37)	-
Cash Flow Provided by Operations	<b>1,219</b>	<b>984</b>	<b>437</b>
<b>Investing Activities</b>			
Expenditures for property and equipment	(969)	(918)	(1,009)
Disposals of property and equipment	79	10	19
Cash Flow Required for Investing Activities	<b>(890)</b>	<b>(908)</b>	<b>(990)</b>
Net Financing Sources/(Requirements)	<b>329</b>	<b>76</b>	<b>(553)</b>
<b>Financing Activities</b>			
(Decrease)/increase in notes payable	(23)	(242)	161
Additions to long-term debt	528	550	756
Reductions of long-term debt	(581)	(290)	(280)
Principal payments received on loan to ESOP	61	58	49
Dividends paid	(138)	(133)	(128)
Other	28	2	(1)
Cash Flow (Used)/Provided by Financing Activities	<b>(125)</b>	<b>(55)</b>	<b>557</b>
Net Increase in Cash and Cash Equivalents	<b>204</b>	<b>21</b>	<b>4</b>
Cash and Cash Equivalents at Beginning of Year	<b>117</b>	<b>96</b>	<b>92</b>
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 321</b>	<b>\$ 117</b>	<b>\$ 96</b>

The reclassification of \$200 million of long-term debt to notes payable, associated with the subsequent event discussed on page 27, is not reflected in financing activities in the Statements of Cash Flows because it did not involve cash. Amounts in these statements are presented on a cash basis and therefore may differ from those shown in other sections of this annual report.

Cash paid for interest (including interest capitalized) was \$441 million, \$438 million and \$389 million in 1993, 1992, and 1991, respectively. Income taxes paid were \$183 million, \$189 million and \$200 million in 1993, 1992 and 1991, respectively.

The financial statements should be read in conjunction with the Notes and Analysis contained throughout pages 21-32.

# Notes and Analysis

(Millions of Dollars, Except Per-Share Data)

## ANALYSIS OF CASH FLOW (Unaudited)

**Operating Activities.** The improvement in 1993 cash flow from operations reflects a decline in working capital, primarily Mervyn's inventories. Internally-generated funds represent an important component of our capital resources.

**Investing Activities.** The Corporation's investing activities reflect strategic capital spending in all three operating divisions, primarily Target. Approximately 73% of 1993 capital expenditures were made by Target, 19% by Mervyn's and 8% by DSD. Nearly 63% of total expenditures were for building new stores, with the balance spent on store remodeling, systems and distribution. Capital expenditures for 1994 are expected to be approximately \$1.3 billion. The 1994 store opening plans are for approximately 60 new Target stores and 10 new Mervyn's stores, while the remodel program includes approximately 45 stores.

**Financing Activities.** Cash flow from operations and proceeds from the issuance of debt are generally used to fund the Corporation's capital expenditures, working capital needs, dividend payments and debt maturities and redemptions. Internally-generated funds were sufficient to finance the Corporation's investment activities in 1993 and 1992, while a portion of the Corporation's needs were met by financing activities in 1991. (Refer to the Lines of Credit note on this page for information regarding the Corporation's available credit.)

## LINES OF CREDIT

At year-end, two revolving credit agreements totaling \$1 billion were available from various lending institutions. There were no balances outstanding at January 29, 1994. A fee is paid for the availability under these agreements and the Corporation may borrow at various specified rates. Fees paid under these agreements were \$2 million each in 1993, 1992 and 1991.

## NOTES PAYABLE

At January 29, 1994, \$200 million in commercial paper was outstanding. The average amount of commercial paper outstanding during the year was \$298 million, at a weighted average interest rate of 3.2%.

Interest rate swaps were used to reduce interest rate exposure by effectively fixing the rate on \$200 million of variable-rate commercial paper at approximately 8.6% until 1999. Subsequent to year end, the interest rate swaps were terminated at a premium of \$22 million. The premium will be amortized into interest expense through 1999. It is anticipated that future interest rate savings will offset the premium amortization. At January 30, 1993,

## NOTES PAYABLE continued

\$200 million of commercial paper, which supported the underlying obligation of the swaps, was classified as long-term debt. Long-term revolving credit agreements backed the commercial paper.

## LONG-TERM DEBT

During 1993, \$528 million of long-term debt was issued with maturities of 1996 to 2023 at rates ranging from 4.65% to 7.875%, with an average interest rate of 7.1%. At year-end, the weighted average interest rate on total long-term debt was 9.0% with an average maturity of 15 years. In 1993, the Corporation called \$300 million of notes and debentures at 7.875% to 10.75% due 1996 to 2013. The replacement of this debt at lower interest rates results in current and future expense savings.

Long-term debt due beyond one year was:

	January 29, 1994	January 30, 1993
<b>Long-Term Debt</b>		
Swapped commercial paper backed by revolving credit	\$ —	\$ 200
4.65% to 10.0% unsecured notes and sinking fund notes and debentures due 1995 to 2023, and other debt	4,157	4,004
Capital lease obligations	122	126
<b>Total</b>	<b>\$4,279</b>	<b>\$4,330</b>

At January 29, 1994, the fair value of the \$4,157 million 4.65% to 10.0% unsecured notes, sinking fund notes and debentures, and other debt was approximately \$4,799 million. The fair value of the \$200 million swapped commercial paper was approximately \$231 million at year-end. The fair value of the long-term debt and swaps was estimated using discounted cash flow analysis, based on the Corporation's current incremental borrowing rates for similar types of financial instruments. The carrying amounts of the Corporation's other borrowings, including the current portion of long-term debt, approximate their fair values.

As a condition of certain borrowings, related land, buildings and equipment have been pledged as collateral. At year end, approximately \$67 million of property and equipment served as collateral for these loans.

Required principal payments on long-term debt over the next five years, excluding capital lease obligations, will be \$168 million in 1994, \$204 million in 1995, \$68 million in 1996, \$123 million in 1997 and \$200 million in 1998.

# *Consolidated Statements of Common Shareholders' Investment*

<i>(Millions of Dollars)</i>	Common Stock	Additional Paid-in Capital	Retained Earnings	Total
<b>February 2, 1991</b>	\$71	\$41	\$ 1,936	\$ 2,048
Consolidated net earnings	—	—	301	301
Dividends declared	—	—	(128)	(128)
Conversion of preferred stock	—	2	—	2
Stock option activity	—	8	—	8
<b>February 1, 1992</b>	71	51	2,109	2,231
Consolidated net earnings	—	—	383	383
Dividends declared	—	—	(135)	(135)
Conversion of preferred stock	—	3	—	3
Stock option activity	—	4	—	4
<b>January 30, 1993</b>	71	58	2,357	2,486
Consolidated net earnings	—	—	375	375
Dividends declared	—	—	(140)	(140)
Tax benefit on unallocated preferred share dividends	—	6	—	6
Conversion of preferred stock	—	6	—	6
Stock option activity	1	3	—	4
<b>January 29, 1994</b>	<b>\$72</b>	<b>\$73</b>	<b>\$2,592</b>	<b>\$2,737</b>

## **Common Stock**

Authorized 500,000,000 shares, \$1.00 par value; 71,525,082 shares issued and outstanding at January 29, 1994; 71,383,880 shares issued and outstanding at January 30, 1993.

## **Preferred Stock**

Authorized 5,000,000 shares; Series B ESOP Convertible Preferred Stock \$.01 par value, 425,979 shares issued and outstanding at January 29, 1994; 432,014 shares issued and outstanding at January 30, 1993. Each share converts into ten shares of the Corporation's common stock, has voting rights equal to the equivalent number of common shares, and is entitled to cumulative annual dividends of \$56.20. Under certain circumstances, the shares may be redeemed at the election of the Corporation or the ESOP.

## **Junior Preferred Stock Rights**

The Corporation declared a distribution of shares of preferred share purchase rights in 1986. Terms of the plan provide for a distribution of one preferred share purchase right for each outstanding share of Dayton Hudson common stock. Each right will entitle shareholders to buy one-hundredth of a share of a new series of junior participating preferred stock at an exercise price of \$150, subject to adjustment. The rights will be exercisable only if a person or group acquires ownership of 20% or more of Dayton Hudson common stock or announces a tender offer to acquire 30% or more of the common stock.

The financial statements should be read in conjunction with the Notes and Analysis contained throughout pages 21-32.

# Notes and Analysis

(Millions of Dollars, Except Per-Share Data)

## STOCK OPTION PLAN

The Corporation has a stock option plan for key employees. Grants have included stock options, performance shares and, beginning in 1993, restricted stock awards. Options have included Incentive Stock Options, Non-Qualified Stock Options or a combination of the two. Twelve months after the grant date 25% of the majority of options granted become exercisable with another 25% after each succeeding 12 months. These options are cumulatively exercisable and expire no later than 10 years after the date of the grant. Stock options are awarded at fair market value on the grant date. When exercised, proceeds are credited to common shareholders' investment and no expense is incurred.

Beginning in 1993, the performance shares earned and restricted stock awarded generally vest at the end of a four-year period, at which time common stock is issued and placed in escrow, subject to further restrictions. Prior to 1993, performance shares earned were paid in cash and common stock. Compensation expense on performance shares and restricted stock awards is recorded based on the current market price of the Corporation's common stock and the extent to which certain goals are being met. Performance share and restricted stock award expense was less than \$1 million in 1993, compared with \$3 million and \$1 million of performance share expense in 1992 and 1991, respectively.

The number of shares of unissued common stock reserved for future grants under the plan was 3,106,901 at the end of 1993 and 3,396,070 at the end of 1992.

Options, Performance Shares and Restricted Stock Awards Outstanding					
	Options				
	Number of Shares	Price Per Share	Shares Exer- cisable	Perform- ance Shares	Restricted Stock Awards
Feb. 2, 1991	1,072,349	\$14.30 - \$75.50	571,948	219,091	—
Granted	190,513	73.81 - 75.19			
Canceled	(49,706)	30.25 - 75.50			
Exercised	(141,990)	14.30 - 69.56			
Feb. 1, 1992	1,071,166	17.44 - 75.50	561,774	190,215	—
Granted	198,027	59.81 - 67.63			
Canceled	(14,666)	17.44 - 75.50			
Exercised	(100,109)	17.44 - 53.19			
Jan. 30, 1993	1,154,418	30.25 - 75.50	590,807	207,758	—
Granted	205,268	65.25 - 83.25			
Canceled	(16,856)	53.00 - 78.00			
Exercised	(70,009)	30.25 - 75.50			
Jan. 29, 1994	1,272,821	\$30.25 - \$83.25	654,624	247,689	30,494

## PENSION PLANS

The Corporation has three defined benefit pension plans which cover all employees who meet certain requirements of age, length of service and hours worked per year. The benefits provided are based upon years of service and the employee's compensation.

Contributions to the pension plans are made solely by the Corporation. To compute net pension cost, the Corporation's actuarial consulting firm estimates the total benefits which will ultimately be paid to eligible employees and then allocates these costs to service periods.

The period over which unrecognized pension costs and credits are amortized, including prior service costs and actuarial gains and losses, is based on the remaining service period for those employees expected to receive pension benefits.

Components of Net Pension Expense	1993	1992	1991
Service cost-benefits earned during the period	\$ 22	\$ 19	\$ 18
Interest cost on projected benefit obligation	32	30	26
Return on assets—current	(50)	(30)	(79)
—deferred	14	(1)	50
Amortization of transitional asset	—	—	(7)
Net pension expense	\$ 18	\$ 18	\$ 8

Actuarial Assumptions	1993	1992	1991
Discount rate	7¼%	8½%	8½%
Expected long-term rate of return on plan assets	9½	9½	9½
Average assumed rate of compensation increase	5¼	7	7

During 1993, the Corporation changed certain actuarial assumptions used in the calculation of its projected benefit obligation for the defined benefit plans. The net effect of these changes on future years' pension expense is not expected to be significant.

		December 31,	
Funded Status		1993	1992
Actuarial present value of:			
Vested benefit obligation	\$385	\$297	
Accumulated benefit obligation	411	316	
Projected benefit obligation	466	380	
Fair market value of plans' assets*	454	403	
Plans' assets (less than)/in excess of projected benefit obligation	(12)	23	
Unrecognized prior service cost	4	5	
Unrecognized net actuarial loss/(gain)	42	(4)	
Prepaid pension asset	\$ 34	\$ 24	

\* Plans' assets consist primarily of equity and fixed income securities.

## Notes and Analysis

(Millions of Dollars, Except Per-Share Data)

### SUPPLEMENTAL RETIREMENT PLAN

The Corporation sponsors a defined contribution employee benefit plan. Employees who meet certain eligibility requirements of age, length of service and hours worked per year can participate in the plan by investing up to 15% of their compensation.

The Corporation's match equals 100% of each employee's contribution up to 5% of each participant's total compensation, within ERISA limits. The Corporation's contribution to the plan is invested in the ESOP.

In 1989, the Corporation lent \$379 million to the ESOP at a 9% interest rate with an estimated maturity of 15 years. Proceeds from the loan were used by the ESOP to purchase 438,353 shares of Series B ESOP Convertible Preferred Stock of the Corporation. The original issue value of the ESOP preferred stock of \$864.60 per share is guaranteed by the Corporation.

The Corporation's contributions to the ESOP, plus dividends paid on preferred stock held by the ESOP, are used to repay the loan principal and interest. Cash contributed to the ESOP was \$61 million each in 1993 and 1992, and \$53 million in 1991. Dividends earned on shares held by the ESOP were \$24 million each in 1993 and 1992, and \$25 million in 1991. Benefits expense, calculated based on the shares allocated method, was \$33 million, \$28 million and \$25 million in 1993, 1992 and 1991, respectively.

In November 1993, the American Institute of Certified Public Accountants issued Statement of Position (SOP) 93-6 "Employers' Accounting for Employee Stock Ownership Plans." The statement is effective for fiscal years beginning after December 15, 1993. Within the SOP, the Corporation may continue its current accounting.

### POSTRETIREMENT HEALTH CARE BENEFITS

Certain health care benefits are provided for retired employees. Employees eligible for retirement become eligible for these benefits if they meet minimum age and service requirements and agree to contribute a portion of the cost. The Corporation has the right to modify or terminate these benefits.

### POSTRETIREMENT HEALTH CARE BENEFITS *continued*

Accumulated Postretirement Benefit Obligation	December 31,	
	1993	1992
Retirees	\$51	\$52
Fully eligible active plan participants	26	30
Other active plan participants	14	14
Prior service cost	(7)	(6)
Unrecognized gain	14	4
Total accumulated postretirement benefit obligation	\$98	\$94

Net Periodic Cost	1993	1992	1991
Service cost - benefits earned during the period	\$1	\$1	\$1
Interest cost on accumulated benefit	8	8	7
Net cost	\$9	\$9	\$8

An increase in the cost of covered health care benefits of 9.5% is assumed for fiscal 1994. The rate is assumed to decrease incrementally to 6% in the year 2000 and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. For example, a 1% increase in the health care trend rate would increase the accumulated postretirement benefit obligation by \$7 million at year-end 1993 and the net periodic cost by \$1 million for the year. The discount rate used in determining the accumulated postretirement benefit obligation was 7.25% for 1993 and 8.5% for 1992.

During 1993, the Corporation changed certain actuarial assumptions used in the calculation of its projected benefit obligation for the postretirement health care benefits. The net effect of these changes on future years' results for the postretirement health care benefits is not expected to be significant.

### SUMMARY OF OTHER ACCOUNTING POLICIES

**Consolidation.** The financial statements include the accounts of the Corporation after elimination of material intercompany balances and transactions. All subsidiaries are wholly owned.

**Fiscal Year.** Our fiscal year ends on the Saturday nearest January 31.

Fiscal Year	Ended	Weeks
1993	January 29, 1994	52
1992	January 30, 1993	52
1991	February 1, 1992	52

Unless otherwise stated, references to years in this report relate to fiscal years rather than to calendar years.

## Notes and Analysis

(Millions of Dollars, Except Per-Share Data)

### QUARTERLY RESULTS (Unaudited)

The same accounting policies are followed in preparing quarterly financial data as are followed in preparing annual data. Costs directly associated with revenues, such as cost of goods sold and percentage rent on leased stores, are allocated based on

revenues. Certain other costs not directly associated with revenues, such as benefit plan expenses, bonuses and real estate taxes, are allocated evenly throughout the year.

The table below summarizes results by quarter for 1993 and 1992:

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Total Year	
	1993	1992	1993	1992	1993	1992	1993	1992	1993	1992
Revenues	\$4,040	\$3,719	\$4,287	\$3,967	\$4,625	\$4,340	\$6,281	\$5,901	\$19,233	\$17,927
Gross Profit (a)	\$1,067	\$1,009	\$1,107	\$1,068	\$1,208	\$1,151	\$1,687	\$1,570	\$ 5,069	\$ 4,798
Net Earnings	\$ 30	\$ 35	\$ 24	\$ 42	\$ 43	\$ 57	\$ 278	\$ 249	\$ 375	\$ 383
Earnings Per Share (b)	\$ .35	\$ .40	\$ .28	\$ .50	\$ .53	\$ .70	\$ 3.62	\$ 3.22	\$ 4.77	\$ 4.82
Fully Diluted Average										
Common Shares Outstanding (Millions)	76.1	75.9	76.0	75.9	76.1	76.0	76.1	76.0	76.1	75.9
Dividends Declared Per Share	\$ .40	\$ .38	\$ .40	\$ .38	\$ .40	\$ .38	\$ .42	\$ .40	\$ 1.62	\$ 1.54
Common Stock Price (c)										
High	\$ 83¼	\$ 70	\$ 75	\$ 69	\$ 71¼	\$ 78¼	\$ 74¼	\$ 79¼	\$ 83¼	\$ 79¼
Low	69%	60	63¼	59	65	61%	65%	72½	63¼	59

(a) Gross profit is revenues less cost of retail sales, buying and occupancy.

(b) Earnings per share are computed independently for each of the quarters presented. The sum of the quarterly earnings per share may not equal the total-year amount due to the impact of changes in average quarterly shares outstanding.

(c) Dayton Hudson Corporation's common stock is listed on the New York Stock Exchange and the Pacific Stock Exchange.

### LIFO PROVISION

The following table shows the quarterly pre-tax LIFO provision and its impact on earnings per share:

LIFO Expense/(Credit)*		1993		1992		1991	
		Per		Per		Per	
Quarter (Unaudited)	Total	Share	Total	Share	Total	Share	
First	\$ 6	\$ .05	\$ 13	\$ .11	\$ 16	\$ .13	
Second	6	.05	15	.12	13	.11	
Third	3	.02	3	.02	3	.02	
Fourth	(106)	(.87)	(22)	(.18)	(70)	(.59)	
Total year	\$ (91)	\$ (.75)	\$ 9	\$ .07	\$ (38)	\$ (.32)	

\*LIFO expense/(credit) per share is computed based on fully diluted average shares outstanding during each period. The sum of quarterly LIFO expense per share may not equal the total-year amount due to the impact of changes in average shares outstanding.

The fourth quarter 1993 LIFO credit was primarily the result of the adoption of internally-generated price indices at Mervyn's and DSD. Previously, Mervyn's and DSD used the Bureau of Labor Statistics' Department Stores Inventory Price Index to estimate retail price changes.

These internal price indices capture the inventory valuation impact of lower retail prices resulting from our value-pricing strategies. This change generated a LIFO credit of \$77 million, or \$.63 per share. The cumulative and prior years' effects of this change are not determinable. In addition to this change, the 1993 LIFO credit was affected by a lower-than-expected internally-generated price index at Target, partially offset by a substantial decline in inventory levels at Mervyn's.

The 1992 LIFO expense, as compared with the 1991 credit, was primarily due to a higher internal price index at Target, partially offset by lower inflation at Mervyn's and DSD. The 1991 LIFO credit primarily reflects Target's adoption of an internally-generated price index.

The LIFO provision is adjusted each quarter for estimated changes in year-end retail inflation rates, inventory levels and markup levels. A final adjustment is recorded in the fourth quarter for the difference between the prior quarters' estimates and actual total year LIFO expense.

## Report of Independent Auditors

Board of Directors and Shareholders  
Dayton Hudson Corporation

We have audited the accompanying consolidated statements of financial position of Dayton Hudson Corporation and subsidiaries as of January 29, 1994 and January 30, 1993 and the related consolidated results of operations, cash flows and common shareholders' investment for each of the three years in the period ended January 29, 1994. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall

financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Dayton Hudson Corporation and subsidiaries at January 29, 1994 and January 30, 1993, and the consolidated results of their operations and their cash flows for each of the three years in the period ended January 29, 1994, in conformity with generally accepted accounting principles.

As discussed in the notes to the financial statements, the Corporation changed its method of estimating retail price indices used in its LIFO inventory valuation for Mervyn's and the Department Store Division in 1993.

*Ernst + Young*

Minneapolis, Minnesota  
March 18, 1994

## Report of Management

Management is responsible for the consistency, integrity and presentation of the information in the Annual Report. The financial statements and other information presented in this Annual Report have been prepared in accordance with generally accepted accounting principles and include necessary judgments and estimates by management.

To fulfill our responsibility, we maintain comprehensive systems of internal controls designed to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with established procedures. The concept of reasonable assurance is based upon a recognition that the cost of the controls should not exceed the benefit derived. After judging the cost and benefit factors, we believe our systems of internal controls provide this reasonable assurance.

The Board of Directors exercises its oversight role with respect to the Corporation's system of internal financial controls primarily through its Audit Committee, which is composed of five independent directors. The Committee oversees the Corporation's systems of internal controls, accounting practices, financial reporting and audits to ensure their quality, integrity and objectivity are sufficient to protect shareholders' investments. Their report appears on this page.

In addition, our financial statements have been audited by Ernst & Young, independent auditors, whose report appears on this page. As a part of its audit, Ernst & Young develops and maintains an understanding of the Corporation's internal

accounting controls and conducts such tests and employs such procedures as it considers necessary to render its opinion on the financial statements. Their report expresses an opinion as to the fair presentation, in all material respects, of the financial statements and is based on an independent audit made in accordance with generally accepted auditing standards.

*Kenneth A. Macke*

Kenneth A. Macke  
Chairman of the Board and  
Chief Executive Officer

*Henry T. DeNero*

Henry T. DeNero  
Vice Chairman and  
Chief Financial Officer

*Douglas A. Scovanner*

Douglas A. Scovanner  
Senior Vice President,  
Finance and Treasurer

*JoAnn Bogdan*

JoAnn Bogdan  
Controller and  
Chief Accounting Officer

March 18, 1994

## Report of Audit Committee

The Audit Committee met twice during fiscal 1993 to review the overall audit scope, plans for internal and independent audits, the Corporation's internal controls, emerging accounting issues, officer and director expenses, audit fees and retirement plans. The Committee also met individually with the internal auditors and independent auditors, without management present, to discuss the results of their audits. The Committee encourages the internal and independent auditors to communicate closely with the Committee.

Audit Committee results were reported to the full Board of Directors, and the Corporation's annual financial statements were reviewed and approved by the Board before issuance. The Audit Committee also recommended to the Board of Directors that the independent auditors be reappointed for fiscal 1994, subject to the approval of the shareholders at the annual meeting.

March 18, 1994

## Summary Financial and Operating Data

(Millions of Dollars, Except Per-Share Data)	1993	1992	1991	1990	1989(a)	1988	1987	1986	1985	1984(a)	1983
<b>Income Statement Data</b>											
Revenues	\$19,233	17,927	16,115	14,739	13,644	12,204	10,677	9,259	8,255	7,519	6,518
Cost of retail sales, buying and occupancy	\$14,164	13,129	11,751	10,652	9,890	8,980	7,950	6,778	5,977	5,462	4,709
Selling, publicity and administrative	\$ 3,175	2,978	2,801	2,478	2,264	2,038	1,769	1,538	1,366	1,234	1,080
Depreciation	\$ 498	459	410	369	315	290	231	183	158	145	123
Interest expense, net	\$ 446	437	398	325	267	218	152	118	100	98	86
Earnings from continuing operations before income taxes	\$ 607	611	472	659	678	472	399	494	518	453	416
Income taxes	\$ 232	228	171	249	268	185	171	239	237	208	189
Net earnings: Continuing (b)	\$ 375	383	301	412	410	287	228	255	281	245	227
Consolidated (c)	\$ 375	383	301	412	410	287	228	310	284	259	246
<b>Financial Position Data</b>											
Working capital	\$ 1,436	1,450	1,452	1,236	912	978	922	1,193	1,130	973	869
Property and equipment	\$ 5,947	5,563	5,102	4,525	3,523	3,486	3,106	2,517	1,770	1,534	1,423
Total assets	\$10,778	10,337	9,485	8,524	6,684	6,523	6,076	5,282	4,418	3,800	3,595
Long-term debt	\$ 4,279	4,330	4,227	3,682	2,510	2,383	1,819	1,377	922	750	751
Convertible preferred stock	\$ 368	374	377	379	379	—	—	—	—	—	—
Common shareholders' investment	\$ 2,737	2,486	2,231	2,048	1,753	1,861	1,986	2,180	1,948	1,737	1,540
<b>Per Common Share Data</b>											
Fully diluted net earnings per share:											
Continuing (b)	\$ 4.77	4.82	3.72	5.20	5.35	3.45	2.41	2.62	2.89	2.54	2.35
Consolidated (c)	\$ 4.77	4.82	3.72	5.20	5.35	3.45	2.41	3.19	2.92	2.68	2.54
Cash dividend declared	\$ 1.62	1.54	1.46	1.35	1.17	1.04%	.94%	.86	.78%	.69%	.62%
Market price – high	\$ 83¼	79¼	80	78¼	66%	45½	63	58½	48¼	37¼	40¼
Market price – low	\$ 63¼	59	56%	47	43	31%	21½	40	35¼	26%	26%
Market price – close	\$ 65%	77¼	65%	65¼	61¼	42%	34%	41¼	45½	35%	29%
Common shareholders' investment	\$ 38.27	34.83	31.31	28.82	24.73	23.97	23.15	22.38	20.04	17.90	15.91
<b>Other Data</b>											
Return on beginning equity (common shareholders' investment):											
Continuing (b)	14.4%	16.1	13.5	22.1	22.0	14.5	10.5	13.1	16.2	15.9	16.8
Consolidated (c)	14.4%	16.1	13.5	22.1	22.0	14.5	10.5	15.9	16.3	16.8	18.2
Average common shares outstanding (millions)	71.5	71.3	71.2	71.0	75.9	83.3	94.8	97.3	97.1	96.9	96.6
Fully diluted average common shares outstanding (millions)	76.1	75.9	75.9	75.7	76.6	83.3	94.8	97.3	97.1	96.9	96.6
Capital expenditures	\$ 978	938	1,016	1,740	603	681	839	941	403	336	321
Number of stores: Target	554	506	463	420	399	341	317	246	226	215	205
Mervyn's	276	265	245	227	221	213	199	175	148	126	109
DSD	63	63	62	61	37	37	37	37	37	36	36
Total Stores	893	834	770	708	657	591	553	458	411	377	350
Total square footage (thousands)	94,184	87,362	80,309	73,769	65,191	58,596	55,028	45,890	42,051	38,956	36,602
Number of employees	174,000	170,000	168,000	161,000	144,000	128,000	134,000	111,000	98,000	101,000	94,000

The Summary Financial and Operating Data should be read in conjunction with the Financial Statements, Notes and Analysis on pages 21-32.

Per-share amounts and shares outstanding reflect a two-for-one common stock split effective July 1983.

(a) Consisted of 53 weeks.

(b) Includes cumulative income effect of two accounting changes, net, of \$2 million (\$.03 per share) in 1990. Before extraordinary item in 1986.

(c) Includes gain on sale of B. Dalton Bookseller of \$85 million (\$.88 per share) and extraordinary charge of \$32 million (\$.33 per share) related to debt repurchase in 1986. Also includes discontinued operations of B. Dalton Bookseller for 1983-1986.

# Dayton Hudson Corporation 1993 Facts

- ▶ One of America's largest general merchandise retailers with revenues of \$19.2 billion.
- ▶ More than 80% of revenues derived from discount and moderate-price retailing.
- ▶ Serves a wide range of consumers through 893 stores housing 94 million square feet of retail space in 33 states.
- ▶ Among America's 20 largest private employers, with a workforce totaling 174,000.
- ▶ Largest commitment to community giving of any major general merchandise retailer with 1993 giving of \$24.0 million. Only major retailer to invest five percent of its federally taxable income in social action and arts programs in store communities.

## TARGET



Target is an upscale discounter which provides quality merchandise at attractive prices in clean, spacious and customer-friendly stores. It has 554 stores coast-to-coast.

(Millions of Dollars)	1993	1992	1991
Revenues	\$11,743	\$10,393	\$9,041
Operating Profit	\$ 662	\$ 574	\$ 458
Stores	554	506	463
Retail Square Feet*	58,087	52,211	47,086

## MERVYN'S



Mervyn's is a moderate-priced family department store chain specializing in soft goods. The division operates 276 stores in 15 states in the Northwest, West, Southwest, Southeast, and Michigan.

(Millions of Dollars)	1993	1992	1991
Revenues	\$ 4,436	\$ 4,510	\$4,143
Operating Profit	\$ 179	\$ 284	\$ 284
Stores	276	265	245
Retail Square Feet*	22,273	21,305	19,479

## DEPARTMENT STORES

DAYTON'S

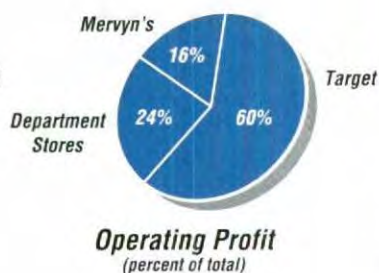
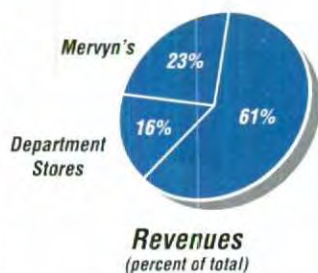
Marshall Field's

HUDSON'S

The Department Store Division emphasizes fashion leadership, quality merchandise and superior customer service. The Division operates 63 full-service, full-line department stores through three store groups predominantly in nine Midwestern states: 19 Dayton's stores, 21 Hudson's stores and 23 Marshall Field's stores.

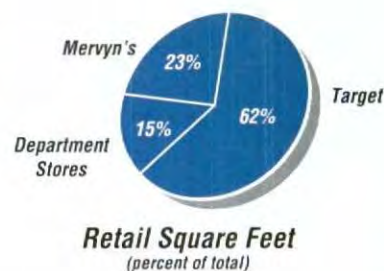
(Millions of Dollars)	1993	1992	1991
Revenues	\$ 3,054	\$ 3,024	\$2,931
Operating Profit	\$ 268	\$ 228	\$ 168
Stores	63	63	62
Retail Square Feet*	13,824	13,846	13,744

\* In thousands, reflects total square feet less office, warehouse and vacant space.



**Total Stores: 893**

**Total Retail Square Feet: 94,184**  
(in thousands)



## TARGET Locations



	Retail Sq. Ft. in thousands	No. of stores
Arizona	1,921	18
Arkansas	186	2
California	12,127	115
Colorado	1,887	18
Florida	4,822	44
Georgia	1,469	15
Idaho	309	3
Illinois	3,211	28
Indiana	2,692	30
Iowa	1,554	17
Kansas	305	3
Kentucky	556	6
Louisiana	202	2
Michigan	3,563	34
Minnesota	4,467	38
Missouri	840	8
Montana	182	2
Nebraska	597	6
Nevada	842	8
New Mexico	403	4
North Carolina	479	5
North Dakota	416	4
Ohio	809	7
Oklahoma	779	8
Oregon	828	8
South Carolina	297	3
South Dakota	391	4
Tennessee	1,298	13
Texas	6,713	63
Washington	1,835	18
Wisconsin	1,925	18
Wyoming	182	2
<b>Total</b>	<b>58,087</b>	<b>554</b>

## Major Markets

Greater Los Angeles	60
Minneapolis/St. Paul	28
Chicago	18
Dallas/Ft. Worth	17
Detroit	17
Houston	17
San Francisco Bay Area	17
Atlanta	14
Miami/Ft. Lauderdale	13
Phoenix	13
Denver	12
San Diego	12
Seattle/Tacoma	10

**Employees**  
(at year-end): 106,000

## MERVYN'S Locations



	Retail Sq. Ft. in thousands	No. of stores
Arizona	1,154	14
California	9,558	123
Colorado	927	12
Florida	1,634	18
Georgia	487	6
Idaho	83	1
Louisiana	538	7
Michigan	1,175	15
Nevada	412	6
New Mexico	180	2
Oklahoma	270	3
Oregon	479	6
Texas	3,331	41
Utah	678	7
Washington	1,367	15
<b>Total</b>	<b>22,273</b>	<b>276</b>

## Major Markets

Greater Los Angeles	47
San Francisco Bay Area	22
Dallas/Ft. Worth	13
Miami/Ft. Lauderdale	13
San Diego	11
Phoenix	10
Detroit	9
Houston	9
Seattle/Tacoma	8
Atlanta	6
Denver	7
Salt Lake City	6
Sacramento	7

**Employees**  
(at year-end): 35,000

## DEPARTMENT STORE Locations



	Retail Sq. Ft. in thousands	No. of stores
<b>Dayton's</b>		
Minnesota	2,748	12
North Dakota	299	3
South Dakota	102	1
Wisconsin	349	3
<b>Hudson's</b>		
Indiana	246	2
Michigan	4,315	18
Ohio	187	1
<b>Marshall Field's</b>		
Illinois	3,944	15
Ohio	201	1
Texas	721	4
Wisconsin	712	3
<b>Total</b>	<b>13,824</b>	<b>63</b>

## Major Markets

Chicago	14
Minneapolis/St. Paul	10
Detroit	9

**Employees**  
(at year-end): 33,000

**O**ur corporate structure enables our operating divisions to retain their individual market identities and still enjoy the benefits of size.

**INTERCHANGE OF TALENT** Corporate management facilitates the exchange and sharing of talent among the operating divisions. In 1993, key members of Mervyn's new management team, including its new president, came from Target.

**STRATEGIC LEADERSHIP** The Corporation also provides strategic leadership as a partner to the operating divisions on divisional issues, and in exploring new business initiatives.

# ESSAY: HOW DHC ADDS VALUE

**EXPENSE SYNERGY** We are now aggressively pursuing cross-divisional profit improvement through a variety of functional teams that span divisional lines. These teams apply the scale of the entire Corporation to the purchase of products and services, as well as the development of new systems.

**CROSS-DIVISIONAL LEARNING** Cross-divisional teams are sharing a wide range of "best practices," technological information and new ideas. For example, inventory management systems at Target and Mervyn's are now being implemented in the Department Stores.

**EASIER ACCESS TO CAPITAL** Dayton Hudson's combined size assures that it has access to and greater clout in the capital markets. Acquisitions, including our 1990 purchase of Marshall Field's, are more easily financed.

**MORE BALANCED PERFORMANCE** On average, our total corporate performance is less volatile than the performance of individual divisions. Stronger performances at Target and the Department Stores in 1993, for example, partially cushioned poor results at Mervyn's during the division's reorganization. This combined strength assures that a temporarily weak division does not instantly become a takeover target — an important benefit in a fast-changing retail climate.

**GOVERNANCE LEADERSHIP** Dayton Hudson has set an example for thoughtful, open corporate governance over the years. Our governance structure has been identified by *Business Week* magazine as a model for the "Corporation Of the Future." The Corporation's heavily independent and active board and our provision for confidential shareholder voting, along with our pension investment, social responsibility and management performance review policies, have distinguished Dayton Hudson in arenas far beyond day-to-day retail operations.

# Directors and Management

(As of April 1, 1994)

## Directors

**Rand V. Araskog**, 62  
Chairman, President, and  
Chief Executive Officer,  
ITT Corporation  
(diversified multinational  
company) (1) (3) (5) (6)

**Robert A. Burnett**, 66  
Retired Chairman and  
Chief Executive Officer,  
Meredith Corporation  
(media company engaged in  
printing, publishing, broadcasting  
and real estate) (1) (3) (4) (6)

**Livio D. DeSimone**, 57  
Chairman and  
Chief Executive Officer,  
3M  
(diversified manufacturer)  
(1) (2) (5) (6)

**Roger A. Enrico**, 49  
Vice Chairman,  
PepsiCo, Inc.  
(domestic and international beverage  
and food business) (1) (3) (5) (6)

**William W. George**, 51  
President and  
Chief Executive Officer,  
Medtronic, Inc.  
(therapeutic medical device company)  
(1) (2) (4) (6)

**Roger L. Hale**, 59  
Vice Chairman,  
Executive Committee,  
Dayton Hudson Corporation  
President and  
Chief Executive Officer,  
TENNANT  
(industrial equipment manufacturer)  
(1) (3) (5) (6)

**Betty Ruth Hollander**, 64  
Chairman and  
Chief Executive Officer,  
The Omega Group, Inc.  
(manufacturer of scientific measurement  
and control devices and systems, technical  
publishing, and industrial and commercial  
real estate development) (1) (3) (4) (6)

**Michele J. Hooper**, 42  
Corporate Vice President,  
International Businesses,  
Caremark International, Inc.  
(health care company)  
(1) (2) (5) (6)

**Kenneth A. Macke**, 55  
Chairman and  
Chief Executive Officer (1)

**Mary Patterson McPherson**, 58  
President,  
Bryn Mawr College  
(institute for higher learning)  
(1) (2) (4) (6)

**Robert J. Ulrich**, 50  
Chairman and  
Chief Executive Officer,  
Target

**John R. Walter**, 47  
Chairman and  
Chief Executive Officer,  
R. R. Donnelley & Sons Company  
(printing and printing services)  
(1) (2) (4) (6)

**Stephen E. Watson**, 49  
President,  
Dayton Hudson Corporation  
Chairman and  
Chief Executive Officer,  
Department Store Division

- (1) Executive Committee
- (2) Audit Committee
- (3) Compensation Committee
- (4) Corporate Responsibility Committee
- (5) Finance Committee
- (6) Nominating Committee

## Officers

**Kenneth A. Macke\***+, 55  
Chairman and  
Chief Executive Officer

**Stephen E. Watson\***+, 49  
President

**Henry T. DeNero\***+, 48  
Vice Chairman

**James T. Hale\***+, 53  
Senior Vice President,  
General Counsel and Secretary

**Douglas A. Scovanner\***, 38  
Senior Vice President,  
Finance and Treasurer

**Gerald L. Storch**, 37  
Senior Vice President,  
Strategic Planning

**Edwin H. Wingate\***+, 61  
Senior Vice President,  
Personnel

**Ann H. Barkelew**, 59  
Vice President,  
Public Relations

**Larry E. Carlson**, 50  
Vice President,  
Research and Planning

**L. Fred Hamacher**, 55  
Vice President,  
Compensation and Benefits

**William E. Harder**, 61  
Vice President, Law,  
and Assistant Secretary

**George C. Hite**, 63  
Vice President,  
Government Affairs

**JoAnn Bogdan\***, 41  
Controller and  
Chief Accounting Officer

**William P. Hise**, 57  
Assistant Secretary

**Stephen C. Kowalke**, 36  
Assistant Treasurer

**Jack N. Reif**, 46  
Assistant Treasurer

## Operating Division Management

### Target

**Robert J. Ulrich\***+, 50  
Chairman and  
Chief Executive Officer

### Mervyn's

**Joseph C. Vesce\***+, 45  
Chairman and  
Chief Executive Officer

### Department Store Division

**Stephen E. Watson\***+, 49  
Chairman and  
Chief Executive Officer

- \* Executive Officer
- + Corporate Operating Committee Member



*Dayton Hudson Corporation  
Corporate Offices: 777 Nicollet Mall  
Minneapolis, Minnesota 55402  
(612)370-6948*

### ***Annual Meeting***

The Annual Meeting of Shareholders is scheduled for 9:30 a.m., Wednesday, May 25, 1994 at The Children's Theatre, Minneapolis Institute of Arts, 2400 Third Avenue South, Minneapolis, Minnesota.

### ***10-K Report***

A copy of the Form 10-K Annual Report, filed with the Securities and Exchange Commission for Dayton Hudson's fiscal year ended January 29, 1994, is available at no charge to shareholders. Write to Director, Investor Relations, at the Dayton Hudson corporate offices.

### ***Dividend Reinvestment Plan***

The dividend reinvestment plan is a convenient way for Dayton Hudson shareholders to acquire additional shares of the Corporation's common stock through automatic dividend reinvestment or voluntary cash purchase. All registered holders of Dayton Hudson common stock may participate. For more information, write to First Chicago Trust Company of New York, P.O. Box 2500, Jersey City, NJ 07303-2500, or call 1-800-446-2617.

### ***Transfer Agent, Registrar and Dividend Disbursing Agent***

First Chicago Trust Company of New York

### ***Trustee, Employee Savings (401K) and Pension Plans***

First Trust National Association

### ***Stock Exchange Listings***

(Trading symbol DH) New York Stock Exchange and Pacific Stock Exchange

### ***Shareholder Assistance***

For assistance regarding individual stock records, lost certificates, name or address changes, dividend or tax questions, write to First Chicago Trust Company of New York, P. O. Box 2500, Jersey City, NJ 07303-2500, or call 1-800-446-2617.

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